

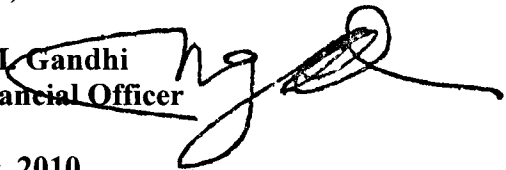
**Government of the District of Columbia**  
**Office of the Chief Financial Officer**



**Natwar M. Gandhi**  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Vincent C. Gray  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi   
Chief Financial Officer

**DATE:** March 19, 2010

**SUBJECT:** Fiscal Impact Statement: "OTO Hotel at Constitution Square  
Economic Development Act of 2009"

**REFERENCE:** Bill 18-431, Committee Print

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**Conclusion**

Funds are not sufficient in the FY 2010 through FY 2013 budget and financial plan to implement the proposed legislation. The real property tax abatement and sales tax abatement for construction materials proposed in this legislation would reduce revenue collections by approximately \$571,500 in the FY 2010 budget and by a total of \$3,690,000 in the FY 2010 through FY 2013 financial plan period.

**Background**

In 2008, Council authorized a real property tax abatement for the Constitution Square project (Lot 160 in Square 711) for the development of a large, mixed-use project including residential, office and retail space.<sup>1</sup> Under the Constitution Square legislation, the OTO Hotel will receive a partial real property tax abatement of approximately \$400,000 in FY 2010 and FY 2011.

The OTO Hotel at Constitution Square (OTO Hotel) will be a 204 room, 128,500 square foot hotel operated under the Hilton Garden Inn flag in the NoMA neighborhood. The hotel will be built on Lot 817 in Square 711 (the "property").

The property is currently owned by Palmetto Hospitality of Washington DC, LLC, a subsidiary of OTO Hospitality Development Company of Spartanburg, SC. Palmetto Hospitality purchased the property on January 21, 2009 for \$11 million.<sup>2</sup> According to the developer, the total cost of

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<sup>1</sup> Constitution Square Economic Development Act of 2008, effective March 20, 2008 (D.C. Law 17-126, D.C. Official Code § 47-4612)

<sup>2</sup> OTR Real Property Tax Database: [https://www.taxpayerservicecenter.com/RP\\_Search.jsp?search\\_type=Assessment](https://www.taxpayerservicecenter.com/RP_Search.jsp?search_type=Assessment)

development is approximately \$59 million and the hotel is expected to open for business in April 2011.<sup>3</sup>

The proposed legislation grants the OTO Hotel an exemption from sales taxes for materials used in the construction of the hotel (\$571,500 in FY 2010 and \$571,500 in FY 2011).

In addition, the legislation grants the OTO Hotel a 100 percent real property tax abatement, after the Constitution Square abatement has expired. The total abatement, including real property tax cannot exceed \$8,100,000. This real property tax abatement will reduce the hotel's real property taxes by an estimated \$7 million from FY 2011 through FY 2017. This is in addition to the \$400,000 District subsidy to the OTO Hotel that is already authorized by the Constitution Square abatement. No evidence has been provided to justify a need for this additional real property tax abatement.

The total loss of revenue to the District that would occur during the budget and planning period due to implementation of this legislation is approximately \$571,500 in FY 2010 and \$3,690,000 in the FY 2010 through FY 2013 financial plan. The total District subsidy over the life of the entire abatement period authorized by this legislation (FY 2010 through FY 2021) is capped at \$8,100,000.

### **Fiscal Impact**

Funds are not sufficient in the FY 2010 through FY 2013 budget and financial plan to implement the proposed act. The abatement proposed by this legislation would reduce revenue collections by \$571,500 in the FY 2010 budget and by \$3,690,000 in the FY 2010 through FY 2013 financial plan period.

**Chart 1. Estimated Impact to the Budget and Financial Plan - FY 2010 through FY 2013, OTO Hotel at Constitution Square Economic Development Act of 2009.**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2010 - FY 2013
Real Property Tax Abatement	\$0	\$342,000	\$1,098,000	\$1,109,000	\$2,549,000
Construction Period Sales Taxes	\$571,500	\$571,500	\$0	\$0	\$1,143,000
<b>Total Revenue Loss from Abatement</b>	<b>\$571,500</b>	<b>\$913,500</b>	<b>\$1,098,000</b>	<b>\$1,109,000</b>	<b>\$3,692,000</b>

The abatement would continue to have a fiscal impact beyond FY 2013. In FY 2014 through FY 2017, the abatement would reduce revenue collections by approximately \$4,400,000. The \$8,100,000 cap on the total abatement is expected to be reached in FY 2017.

**Chart 2. Estimated Impact to District Revenue Collections - FY 2010 through FY 2017, OTO Hotel at Constitution Square Economic Development Act of 2009.**

<sup>3</sup> OTO Development Construction Budget.

	FY 2010 – FY 2013	FY 2014- FY 2017	Total
Real Property Tax Abatement	\$2,549,000	\$4,408,000	\$6,957,000
Construction Period Sales Taxes	\$1,143,000	\$0	\$1,143,000
<b>Total Cost of Abatements</b>	<b>\$3,692,000</b>	<b>\$4,408,000</b>	<b>\$8,100,000</b>